economic trends

May 2013

Economy remains healthy through the first quarter

Alberta's household sector continues to expand with strength in employment, housing starts and retail sales. The business sector remains stable with exports growing through the first quarter and manufacturing recovering.

The ERCB's annual report on Alberta's energy sector points to continued growth in oil sands activity, while the conventional oil sector has benefitted from new drilling technology, adding to production and reserves.

Key Indicators All indicators seasonally adjusted unless otherwise indicated.

Indicator	Latest Month	Value	Change year-over-year (y/y)
Employment (thousands)	April	2,183	+1.9%
Unemployment Rate	April	4.4%	-0.5 p.p.
CPI Inflation	April	1.3%	+0.5 p.p.
Retail Sales	March	$5.9B	+4.7%
Housing Starts (annualized)	April	39,213	-1.1%
Rigs Drilling (unadjusted)	May	88	0.0%
Manufacturing Shipments	March	$6.2B	-2.0%
Exports (unadjusted)	March	$8.7B	+1.4%

Source: Statistics Canada, CAODC, CMHC. p.p.= percentage points.

Global Economy

Congressional Budget Office (CBO) cuts US deficit forecast

The CBO has lowered its 2013 projection for the US federal deficit by $200 billion to $642 billion. The revision is mostly due to increased income tax revenues and profits transferred from the federal mortgage banks, Fannie Mae and Freddie Mac.

Despite the implementation of 'sequestration' cuts, the US economy has so far been able to overcome the effects of fiscal contraction. US equity markets have rallied over 20% since November, job growth has sustained healthy gains, housing starts and prices have climbed while real GDP growth in the first quarter rose 2.4%.

European Central Bank (ECB) cuts rates as Eurozone remains in recession

The ECB cut its key lending rate to 0.5% earlier this month as inflation pressures in the Eurozone remain subdued. The ECB also opened the door to further monetary easing focused on reviving credit growth to small businesses in Europe.

European economies continue to struggle with record high unemployment and a recession that has continued in many Eurozone member states including Italy and Spain. Even German economic growth has practically stalled, remaining only slightly positive in the first quarter.

Alberta Business Sector

Oil production growth to remain strong

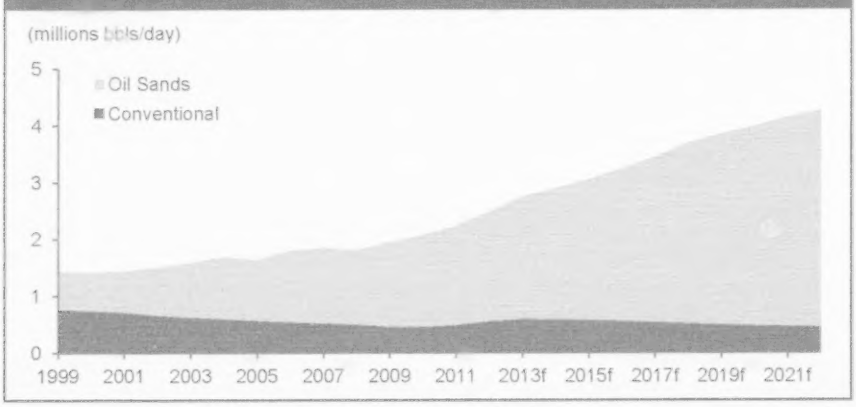
According to the Energy Resource and Conservation Board's (ERCB) annual ST-98 report, crude oil and bitumen production jumped last year and is expected to double by 2022.

In 2012, bitumen production increased by 10%, reaching 1.9M bbl/day, led by a 17% jump in in-situ production. Consequently, in-situ bitumen accounted for more oil sands production than mining for the first time last year. Oil sands production is expected to grow by 98% over the next decade, accounting for 87% of Alberta's oil production by 2022, up from 73% in 2012.

Conventional crude oil production continued to reverse the historical downward trend for the third year in row, jumping by 14% last year. Horizontal drilling techniques have unlocked previously unrecoverable oil, helping to add almost 10% to conventional oil reserves in 2012.

Alberta's natural gas production continued to decline, dropping by 5.6% last year. Over the forecast period, the ERCB expects natural gas production to decline while Alberta's demand will continue to increase. As a result, Alberta consumption of the province's natural gas production is expected to climb from around 44% last year to close to 80% in 2022.

Chart 1: Alberta Oil Production Forecast



Source: Energy Resource and Conservation Board (ERCB) ST-98 (2013)

Construction activity trending higher

The value of first quarter building permits continued to climb for the seventh consecutive quarter, growing by 28% compared with last year. The strong permit growth signals continued growth in construction activity. Residential permits have been the driver of growth, posting double digit gains in every quarter since the middle of 2011, mirroring the strength in housing starts. Non-residential permits have trended higher and were buoyed in the first quarter by a spike in institutional permit value brought about by the opening of the Edmonton Remand Center.

Manufacturing recovers but remains below last year's level

Manufacturing shipments have recovered through the first quarter from December's 18-month low. Positive monthly gains in petroleum & coal products have underpinned this year's recovery. Despite the positive signs, shipments have remained slightly below last year's elevated levels for the last seven months.

Energy exports lead growth

International exports from Alberta have risen above last year's level in each of the first three months of 2013. Energy product exports have posted positive gains through the first quarter and make up 70% of the value of total exports.

Alberta Household Sector

Employment posts impressive April gain

Alberta added 14,800 jobs in April, the largest monthly gain since July 2011 and the third month of gains this year. The increase helped push Alberta's year-to-date employment growth up to 2.0%. The growth has been fueled entirely by full-time positions and split between the private and public sector. At the industry level, employment growth has been fairly broad based. Finance, insurance, real estate and leasing (+18,400), professional, scientific and technical services (+12.300), and manufacturing (+10,500) are the industries contributing most to employment growth so far this year.

Alberta's unemployment rate dropped to 4.4% in April, the first drop in six months. The rate has hovered in the 4.2% to 4.8% range for the last twelve months.

New car dealers boost strong retail sales

Fuelled by robust population and wage growth, Alberta retail sales grew by 4.7% in the first quarter compared to last year. Although the growth is a moderation from last year's 6.9% annual increase, it is still the largest gain in the country. The quarterly gain was propelled by new vehicle sales, which surged 14.7%.

Housing starts maintain momentum; Calgary pushes home prices higher

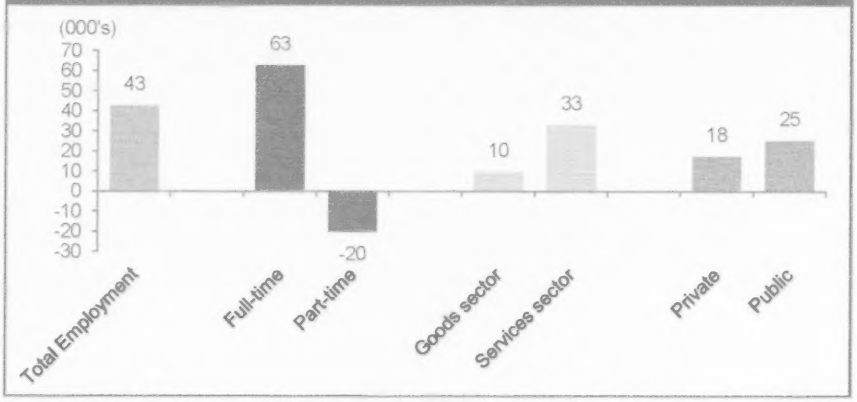
Alberta's housing market continues to buck the slowing trend in national starts and prices (see this month's inFocus). Alberta housing starts topped 39,000 (seasonally adjusted at annual rate, SAAR) in April for only the third time in five years. Alberta's starts have grown 5.4% so far this year, building on the 30% surge in starts last year. The new house price index and prices for existing homes in Alberta continue to trend upwards largely due to price gains in Calgary.

Inflation remains low; earnings post strong growth

Alberta's CPI inflation edged up to 1.3% in April. CPI excluding volatile food and energy prices remains around 1.0%, suggesting that underlying price pressures are contained.

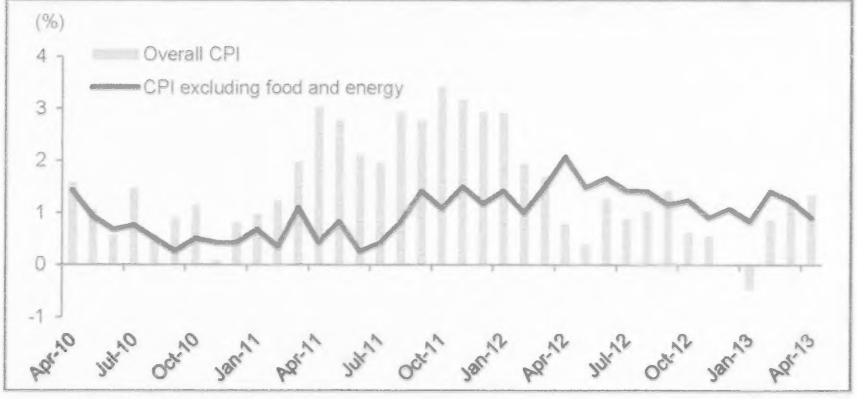
Average weekly earnings continue to build on strong wage growth over the last two years having grown 4.0% in the first quarter compared to last year. This year's growth in earnings was due to increases in hours worked per week and hourly wages.

Chart 2: Alberta Employment Growth by Job Type (year-to-date)



Source: Statistics Canada

Chart 3: Alberta CPI Inflation Rate



Source: Statistics Canada

Alberta's new housing market
sustaining momentum

Alberta's new housing market is moving against the slowing national trend. While other markets in Canada are now correcting, strong population gains, combined with steady wage increases and above average housing affordability, are supporting housing demand in Alberta.

This InFocus provides an update of developments in the new housing market. It shows that across key indicators of new home activity, Alberta is reporting healthy gains.

Alberta housing starts keep climbing as national home construction cools

Alberta housing starts have remained above their five-year average since January 2012, sustaining monthly levels of over 30,000 (SAAR) in eleven of the past twelve months. After surging 30% in 2012, Alberta housing starts have climbed another 5% over the first four months of this year. Conversely, national starts have tracked below the five year average in every month this year, after remaining above the average throughout last year.

The strength in Alberta's housing starts is softening the national downward trend. Year-to-date, Canadian starts are down 20%, mainly as a result of a strong decline in the number of starts in Ontario, and in particular Toronto, where starts have fallen by 44%. If Alberta is excluded from the national numbers, starts in the rest of Canada are down an even sharper 24% (Chart 1). Alberta's share of national starts has grown to roughly 20%, up from 10% in 2011, reaching the highest share of total starts since 2007.

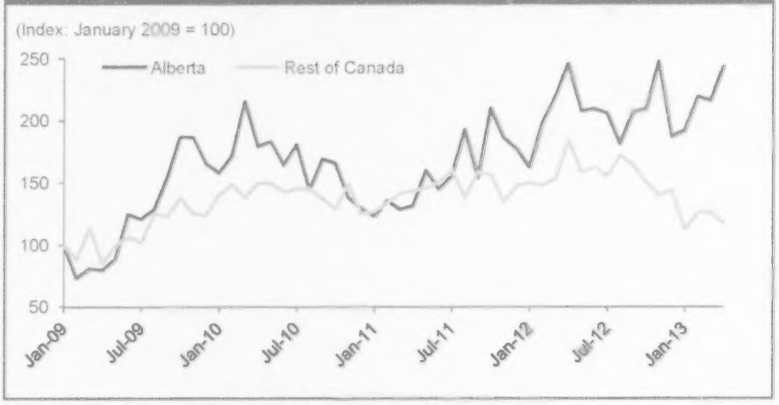
Edmonton leads growth in Alberta housing starts

As the major population centers in the province, Edmonton and Calgary account for the vast majority of housing starts in the province. Both cities generally trend together in new residential construction, evidenced by identical 38% increases in starts last year, the largest gain among major Canadian cities. However, in 2013, the number of housing starts in the two cities has diverged. Edmonton has sustained last year's growth momentum with a 37% year-to-date surge, while Calgary starts have dipped by 27%.

Single and multiple unit starts added to last year gains

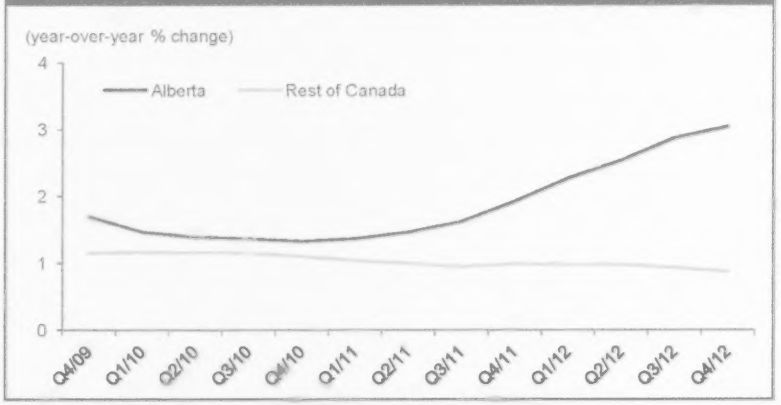
The growth in Alberta's housing starts last year was largely driven by multiple units. In 2012, there were more starts in multiple units than single units for only the second time in thirty-one years. Multiple unit starts jumped 55% compared with an 11% gain in single unit starts. So far in 2013, starts have reversed last year's trend, with single starts up by 10% while multiple unit starts have edged down by 6%.

Chart 1: Housing Starts



Source: Canada Mortgage and Housing Corporation

Chart 2: Population Growth



Source: Statistics Canada

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What's driving Alberta's new housing activity?

Alberta's robust labour market has helped attract new residents with employment opportunities, affordable housing, and high earnings relative to other provinces. Alberta had the highest annual employment growth rate in the country for the last two years and the lowest unemployment rate in the country last year.

Spurred by migration from other provinces and abroad (Chart 2), Alberta's housing market has benefitted from strong population growth. As of January 1st, 2013, year-over-year population growth hit 3.0%, the highest rate since 2007. Over the 2012 calendar year, Alberta welcomed 86,000 net new migrants from across Canada and abroad.

The province's strong population growth is expected to persist through 2013. As a result, residential investment, while cooling at the national level, is continuing to play a significant role in Alberta's strong economic performance.

New house price gains accelerate

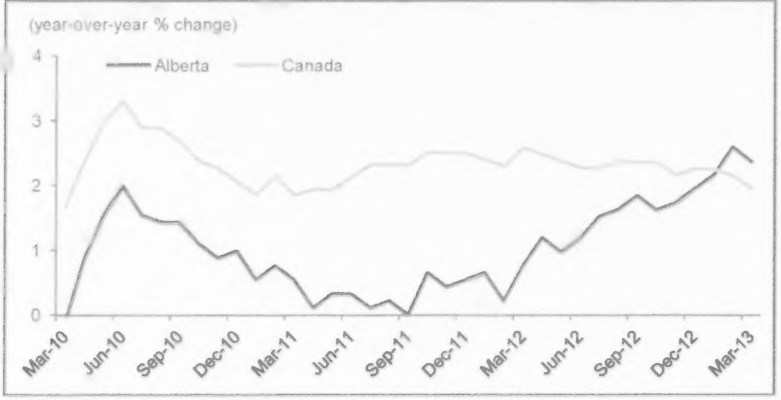
After years of flat or negative growth, the increase in activity in the new home market is now pushing up the price of new homes. Alberta's new housing price index is starting to gain momentum (see Chart 3) growing by over 2.0% year-over-year for the last three months, growth not seen since the summer of 2010. This improvement in Alberta's new housing price index has been largely due to a surge in Calgary's new home prices, which have exceeded the growth in Edmonton's prices for the last ten months.

Nationally, growth in new home prices has started to cool since last year (Chart 3). In contrast, new home price growth in Alberta has outpaced the national average for the last three months.

Residential construction costs increase at a slower rate

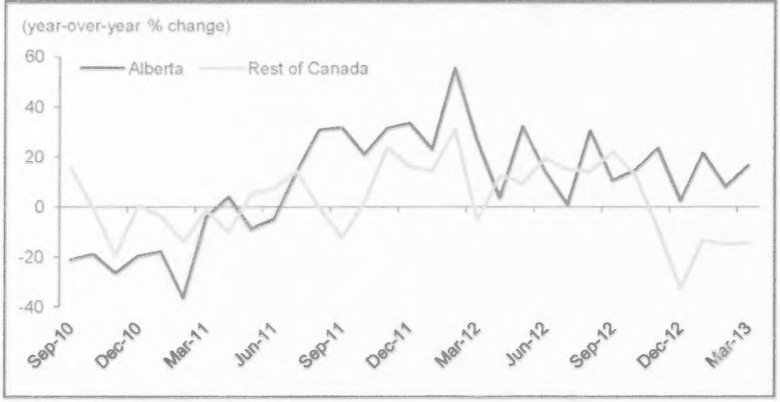
The apartment construction cost index is a proxy for housing construction costs across Canada, and includes Calgary and Edmonton. The index indicates that annual residential construction cost inflation has cooled from over 4.5% in Alberta in the first quarter of 2012 to around 1.5% in the first quarter of 2013. Falling construction cost growth has worked to contain the price of new homes in Alberta.

Chart 3: New House Price Index



Source: Statistics Canada

Chart 4: Residential Housing Permits



Source: Statistics Canada

Permits point to further gains

The value of issued building permits act as a leading indicator of construction activity, capturing both renovation activity and housing starts. Quarterly building permits issued in Alberta have not fallen year-over-year since the second quarter of 2011. In contrast, residential permits in Canada have fallen in the last two quarters, further signalling a national cooling trend. The diverging permit data between Canada and Alberta reflects housings starts and overall residential construction activity (Chart 4).

Conclusion

The new housing market has played a significant role in Alberta's recent economic performance. Housing starts, building permits and new home prices in the province have sustained momentum, and are moving in the opposite direction of the national averages. Growth in population and migration, coupled with strong growth in jobs and earnings, have helped fuel the growth in Alberta's new housing construction. This is expected to support continued strength in residential investment in 2013.

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